The GIS is unjustly treating unknowing seniors

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Liberal budget update: $1.76 billion more for seniors, possibly thanks to this website

The following is an update based on the March 19, 2019 Liberal Budget. It summarizes the justice that has been achieved for those two million seniors now receiving GIS.

The Guaranteed Income Supplement (GIS) gives low income seniors up to $11,000 per year but it has a punitive clawback rate of as much as 76%. Two thirds of GIS recipients are women.

Consider a 65-year-old woman working at Tim’s, grossing $16 an hour. Because of the GIS clawback, she could be netting less than $4 per hour. Her GIS payment next year would be reduced by up to 76% for every dollar she earned. Compare $4 per hour net to Ontario’s minimum wage of $14 per hour.

The clawback rate applies to Canada Pension Plan pensions as well. Even though she had contributed, lifetime, to the CPP enough for a $1,000 annual pension, her total income would only go up by as little as $240 because of her pension.

Virtually no one in Canada was aware of this vicious clawback rate. Three prominent websites, taxtips.ca, moneysense.ca and retirehappy.ca all stated the GIS clawback rate is only 50%. A government website agreed. I posed as a confused senior and the government, through ServiceCanada, both on the phone and in-person, stated “There is no GIS clawback”. I emailed the ultimate authority, the Chief Actuary and he said “You are right. The GIS clawback is as high as 76%.” Proof of all of the above can be found below.
Tragically, there are probably thousands of seniors now working for a net of as little as 24% of their gross pay but they have no idea. They simply cash their GIS cheque without realizing it has been sharply reduced because they went to work.

CARP, the Canadian Association of Retired People, has 300,000 members and is by far the most respected, prominent seniors’ organization in Canada. Our new Minister for Seniors listens to them carefully and passes on any viable requests to our Minister of Finance who then legislates new policy.

After receiving repeated pleas from me, CARP’s Vice-President of Advocacy finally took notice. She included a request to the Minister for Seniors and the Minister of Finance to reduce the clawback rate to 50%.

The Liberal government, not wanting to see a newspaper article entitled “Liberals gouge 76% of unknowing, low-income seniors’ gross pay”, took note. The March 19, 2019 budget reduced the clawback rate from an average of 62% to an average of 45%. It also increased the earnings exemption before the clawback takes effect from $3,500 to $5,000. The budget gave an example of one senior who grossed $14,600 and netted only $6,650 in the old system. With these changes in place, she would net $9,600, $2,950 more. The budget states:

“It is estimated that improving the economic security of low-income seniors through the enhanced GIS earning exemption would cost approximately $1.76 billion over four years.”

Below is the status of this website before the changes. It may have been used by Liberal strategists to develop a reasonable revision to this unjust GIS clawback rate of up to 76%.
Introduction

One third of all seniors live near the poverty line. Yet, even those seniors earning as much as $123,000 per year receive a grant from our federal government. Two conflicting, confusing grant programs result in too much for the wealthy and too little for two million low-income seniors. One program can result in a senior, unknowingly, working for as little as $3 per hour. Furthermore, a senior can mysteriously net only one third of his deserved CPP pension, even though he was forced to contribute, substantially, for most of his life. The government misinforms the public and does little to help. There are solutions.

The Guaranteed Income Supplement (GIS) is a grant to help low-income seniors who are over 64. Based on a senior’s most recent tax return, the GIS grants him up to $10,567 per year.

However, the GIS has a highly punitive clawback. Our government and many respected authorities believe the GIS clawback rate is 50%. On inquiry, our government now admits it is as high as 76%.

Consider, for example, a typical low-income senior who has contributed, lifetime, roughly $80,000 to the Canada Pension Plan (CPP). This mandatory investment gives him the right to a $5,000 annual CPP pension. However, because of the GIS clawback, his increase in annual income will only be $1,800 or 36% of his deserved CPP pension. Lifetime, he will net roughly $36,000 in return for his $80,000 in contributions over 40 years to the CPP.

Moreover, there are two million seniors who live near the poverty line. To increase their income, many decide to work, even though, for aging seniors, working is difficult. After they earn $3500, they will be victims of a clawback as high as 76%. Those on a minimum wage of, for example, $12 per hour, are likely unaware they are netting as little as $3 per hour.

In our federal government’s First Poverty Reduction Strategy published in August 2018, they state “The increase to the Guaranteed Income Supplement ensures more seniors can retire in security and dignity.” There is no
dignity in forcing a senior to work at roughly $3 per hour, 25% of the average minimum wage in Canada.

Two thirds of GIS recipients are female.

**How GIS payments are calculated**

Consider, for example, a senior with a $5,000 CPP pension and $3,500 in earnings in a year. Based on the GIS tables, he would receive GIS payments totalling $7,327. If, next year, he earned $1,000 more, his GIS payments would be $756 less than the previous year. This is equivalent to a 76% clawback or a net income that is a mere 24% of his gross income.

The graph below is derived from the federal government’s GIS payment tables. It shows seniors’ true income as a percentage of gross income, after the clawback.

The blue line shows that a senior with a CPP pension plus earnings over $3500 totalling, for example, $5,000 will net roughly 35%, $1,750 of his $5,000. The red line shows that if that same senior earns $1,000 more than $5,000 next year, he will only net 24%, $240, of his earned $1,000.
The clawback decreases but income tax increases, giving an 80% “clawback”

The graph shows that the red line becomes a more reasonable 50% when the income level used for GIS determination is above $10,000. However, $10,000 in GIS-eligible income delineates when a senior starts to pay income tax. For an additional income of $1,000 in Ontario, he will be taxed at a marginal rate of roughly 30%, as confirmed by taxtips.ca. (See appendix.) This 30%, combined with the 50% GIS clawback, results in a true income that is just 20% of gross income.

It is almost impossible for these seniors to lift themselves out of low-income status. They are saddled with as much as an 80% clawback and probably a low wage rate.

For the following analysis, for simplicity, only single seniors have been analyzed. Their plight is more urgent than couples. Single seniors represent 60% of GIS recipients and collect 70% of GIS funding. Couples are also abused by the GIS but it is not as pronounced.

The following provides details and outlines serious, rampant confusion among Canadians concerning the GIS. It also proposes inexpensive, effective solutions.

Few in Canada seem to be aware of the true clawback rate

Canada’s Office of the Superintendent of Financial Institutions, advised by Canada’s Chief Actuary, stated:

For a single, widowed, divorced or separated person, the maximum monthly GIS benefit is reduced by 50 cents for every dollar of monthly income.

This contradicts our federal government’s GIS official website, which shows that a clawback rate of up to 76% is used to calculate and issue GIS payments. When this inconsistency was revealed to the Office, a spokesperson admitted:
You are right to say that the overall income reduction rate is 67% in our example...

Again, you are also right that in this case about $240 will remain of his/her additional $1000 and the total income reduction rate is 76%.

The full email is in Appendix A below.

Three respected, informative websites that arguably most educate seniors about the GIS, refer to the clawback rate as only 50%.

Retirehappy.ca states:

For the most part, your GIS payment is reduced from the maximum payable by 50 cents for every dollar of other income that you have.

Taxtips.ca states:

Each $2 of income reduces GIS by $1.

Moneysense.ca states:

...the maximum monthly GIS is reduced by $1 for every extra $2 of monthly income.

The above quotes are shown in the Appendix as webpage images.

Government assistance regarding GIS is sorely lacking

In 2018, two million low-income seniors will receive $12.2 billion through the GIS program. Yet the system is highly complex and government employees convey confusing, incomplete information to seniors.

Posing as an uninformed senior, I recently phoned ServiceCanada, a federal helpline that helps seniors with income issues. The spokesperson stated:

“There is no GIS clawback, but there is an OAS clawback.”

I next visited ServiceCanada, in person. The eager-to-help representative had no idea of the clawback rate. The fact that the clawback rate is zero on the first
$3,500 of employment income and up to 76% on all other income was never mentioned.

Seniors are also confused about the GIS because they need to apply every year. Some don’t realize this and miss out. They are denied GIS not by choice, but by a failure to understand a confusing system.

Also, the application form is confusing. It asks seniors for several values from their most recent tax return. One single entry on the form, for example, combines 16 entries from their tax return. In filling out the form, many confused seniors are likely not accurate, resulting in delays and undetected underpayment. Those tens of thousands of seniors with mental health issues, including early-onset dementia, are probably failing to accurately claim what is rightfully theirs.

There is a simple solution. This confusing, tedious, inaccurate application process could be eliminated. All necessary applicant information is already captured through a senior’s tax return. Our government could easily use computers to automatically collect data from the applicant’s tax return and then generate all appropriate GIS payments as soon as the applicant turns 65.

The increase in payments to deserving seniors would be offset by the reduction in roughly two million application forms being manually processed per year.

Our federal government is exacerbating the situation. In June 2016, they increased CPP mandatory contributions by 20%, starting in 2019. This will eventually result in one’s CPP annual pension increasing by roughly 33%. Unfortunately, the GIS clawback will take most of this deserved pension increase away from low-income seniors.

Some provinces also assist low-income seniors on a much smaller scale. Ontario, for example, has the Guaranteed Annual Income System (GAINS). With a clawback rate of 50%, it grants up to $947 per year to low-income seniors.
Meanwhile, some governments are experimenting with a zero clawback

There is a movement throughout the world to distribute a grant to the poor, with no clawback and no strings attached. In a 2017 pilot, the Ontario government provided up to $16,989 to single recipients as an unconditional cash payment to the poor, “no strings attached”. Finland, the United States, Kenya, the Netherlands, Germany and several other countries are also investigating. While much of the world is experimenting with a zero clawback, should our government be imposing a 76% clawback on seniors, without telling them?

How much would it cost if the federal clawback rate were reduced to 50%?

If the clawback rate were reduced to the alleged 50%, the increase in funds to low-income seniors would be considerable. Based on numbers provided by the Chief Actuary, a reduction of the clawback rate to 50% would grant each of 1.62 million low-income seniors $1,200 more per year, on average. It would cost our government an estimated $2 billion per year.

How to offset the cost of the revised clawback

Politicians will resist any change in policy unless it provides an increase in votes and/or a decrease in the deficit. Firstly, the net cost to government would be much less than $2 billion because of the income recovery provided by HST, enhanced by the multiplier effect. Low-income seniors tend to spend most of their income.

How can this increase in GIS cost be further offset? Four just, sensible solutions exist.

Solution one: Decrease Old Age Security (OAS) generosity

Unlike GIS, almost all of the six million seniors over 64 receive OAS, which is a second grant from the government. Those seniors earning up to $75,910 receive $7,075 per year, albeit taxable. The clawback rate is a comparatively small 15%, resulting in seniors
with an income of as much as $123,019 receiving OAS.

This contradiction is shocking. While our government imposes as 76 % clawback on seniors earning as little as $7,000, it gives a grant to seniors earning as much as $123,019.

In a 2013 paper, The Fraser Institute, a respected think tank, recommended the OAS clawback start and end at a much lower income. They suggested the OAS clawback should start at $51,100 and end at $94,787. They estimate this suggestion would yield a $730.4 million savings annually.⁶

Many Canadians would probably recommend an even deeper cut to OAS, wondering why any senior with, for example, a $50,000 annual income deserves any grant when two million seniors live near the poverty line, victims of a 76% clawback.

Even with reduced OAS payments, wealthier seniors would still enjoy many profitable income advantages over the poor. The honest wealthy avoid taxes using a capital-gains-free residence, the dividend tax credit, capital gains taxed on only 50% of the gain, RRSP’s, TFSA’s, low investment fee rates and many loopholes that tax consultants will eagerly provide. Moreover, the dishonest wealthy have successfully evaded taxes or expenses by paying contractors with cash and using offshore bank accounts. Few low-income seniors have the resources or knowledge to take advantage of these benefits available to the wealthy.

**Solution two: Close the loophole that gives middle-income seniors full GIS payments without clawback**

Wealthier seniors are collecting the full GIS of over $10,567 per year while low-income seniors are being clawed back. The wealthy do this by:

- delaying their CPP income until age 70
- not earning more than $3,500, the 2018 earnings exemption for full GIS
- supplementing their GIS and OAS grants totalling roughly $18,000, tax-free, with savings from their
Tax-Free Savings Account (TFSA). (TFSA withdrawals are not included on one’s tax return.)

With this strategy, a middle-income senior who contributed the maximum to his TFSA during his working years, could cash, for example, $13,500 per year of his TFSA, and enjoy a tax-free, clawback-free $35,000 annual cash intake for five years. Over those 5 years, with many times the assets of a low-income senior, he would collect an untaxed $53,000 in GIS payments. Moreover, his CPP payments at age 70 would be 42% higher because he delayed them.

Consider a typical low-income senior whose lifetime contributions to the CPP gives him a CPP pension of $5,000 per year. To increase his poverty-line income, he painfully forces himself to work from age 65 to 70. Assume he earns $6,000 per year. His total cash intake would be $21,826 per year. Over those 5 years, he would only receive $13,650 total in GIS payments. The following table summarizes the two seniors’ situations over five years.

**Comparison of two seniors collecting GIS from age 65 to 70**

<table>
<thead>
<tr>
<th></th>
<th>Low-income senior</th>
<th>Middle-income senior</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TFSA</strong></td>
<td>Could not afford it when younger</td>
<td>Contributed the maximum</td>
</tr>
<tr>
<td><strong>Hours worked per week</strong></td>
<td>Ten, at minimum wage</td>
<td>Two, at $35 per hour</td>
</tr>
<tr>
<td><strong>Work income</strong></td>
<td>$6,000</td>
<td>$3500, no clawback</td>
</tr>
<tr>
<td><strong>Deserved CPP</strong></td>
<td>$5,000</td>
<td>Through deferral to age 70, it will be 42% higher</td>
</tr>
<tr>
<td><strong>TFSA withdrawal</strong></td>
<td>Zero</td>
<td>$13,500</td>
</tr>
<tr>
<td><strong>GIS payment per year</strong></td>
<td>$4,826</td>
<td>$10,567</td>
</tr>
<tr>
<td><strong>OAS payment per year</strong></td>
<td>$7,000</td>
<td>$7,000</td>
</tr>
<tr>
<td><strong>Total cash income</strong></td>
<td>$21,826 per year</td>
<td>$34,567 per year</td>
</tr>
</tbody>
</table>
Because this low-income senior had a $5000 CPP pension and $6,000 in earned income, after the $3,500 earnings exemption, he had $7,500 in income. From the government tables, his GIS would be $5,582, down roughly $5,000 from the GIS maximum of $10,567. His CPP plus earnings was $7,500 but caused him to lose $5,000 in GIS payments.

In summary, over five years, a typical low-income, working senior, could have a cash intake of 63% of a non-working middle-income senior. Yet the middle-income senior would undeservedly receive almost four times the GIS payments, with no clawback.

C.D. Howe pension expert Malcolm Hamilton stated in 2014:

*Governments are now concerned about the cost implications of paying GIS benefits to middle-class Canadians who substitute TFSAs for RRSPs.*

Jonathon Chevreau, retirement expert, also in 2014, stated:

*I wouldn’t be counting on this loophole - if loophole it is - lasting too long.*

Four years later, with the clawback rate of up to 76% uncovered, combined with possibly hundreds of thousands of unaware seniors, it is time for the government to act.

This expensive unjust loophole could be easily closed. Consider the test for younger Canadians applying for social assistance in Ontario. Applicants must report their assets, such as a house, car, investments (including TFSA investments) and interests in a business. Those with substantial assets receive no social assistance. If such an asset test were incorporated into the GIS application, wealthier seniors would be prevented from receiving GIS.
thereby leaving much more funds for deserving seniors.

Younger Canadians are treated much better than seniors. The clawback rate is a maximum of 50%.

Even our federal government acknowledges the TFSA favours the wealthy. The Parliamentary Budget Office (PBO) states:

*The PBO estimates that the TFSA program is regressive, overall. Benefits skew to higher income, higher wealth and older households.*

A PBO graph next to the above statement shows that the lowest 20% of earners in 2015 enjoyed only 3% of the TFSA benefits.

**Solution three: Treat all contributions to retirement like a TFSA**

Eight million Canadians now earn less than $20,000 per year. With the poverty line at $22,133, very few have any excess income available to contribute to a TFSA. They can barely afford to pay their mandatory contributions to the CPP of almost $1,000 per year.

To level the playing field, *any* contribution towards retirement, including CPP contributions, should be made TFSA-eligible. This would mean CPP pensions would no longer be clawed back. An earned $5,000 CPP pension, for example, would bring $5,000, not the current $1,800, in additional income to seniors who heavily depend on the GIS.

The injustice is further exacerbated by our tax system. After tax, a low-income worker contributes roughly 4% of his income towards the CPP. Conversely, a high-income worker now contributes roughly 1.5% of his income towards the CPP, leaving substantial extra cash to invest in a TFSA.

**Solution four: Release next year's CPP surplus to deserving pensioners**

The following is not related to the GIS. However, it can greatly help solve the problem of senior poverty.
The CPP now has a $120 billion surplus above what it needs to meet all pension obligations for the next 75 years. This is because the CPP’s investment arm is highly competent, averaging an exceptional 11.8% return since 2009, even though their target return is only 6%. Experts predict this success will continue.

Seniors’ contributed the money that helped fund this massive surplus. Many will die before ever seeing their fair share. If that CPP investment success continues, this surplus will be **$200,000 per pensioner** by 2038. We should start distributing any excess surplus above the $120 billion now.

With the same investment success next year, the CPP will have a surplus **increase** of roughly $4,500 for each of six million pensioners. This is over a 50% increase in the average CPP payment. If this money were distributed, the positive impact on seniors’ lifestyle, the GDP and the troubling federal deficit would be considerable.


**Do seniors understand the impact of the clawback?**

The clawback of up to 76% is disgraceful, but there is an even more serious problem. Most low-income seniors are not aware of the size or impact of the clawback. Summarizing:

- Canada’s Chief Actuary erroneously published the clawback rate as 50%, not as much as 76%.
- The respected, informative websites, retirehappy.ca, taxtips.ca and moneysense.ca all state the clawback rate is only 50%.
- A ServiceCanada representative, when telephoned, stated “There is no GIS clawback but there is an OAS clawback.”
- In my meeting with a ServiceCanada representative, he had no inkling of the clawback amount, clawback rate or earnings exemption.
- The GIS application form alludes to a $3,500 earnings exemption but the GIS website does not.
• A recent research report endorsed by The Society of Actuaries based their analysis on a clawback rate of only 42%.

• Because victims of the clawback are low-income, they are probably less educated and not able to understand the confusing clawback. Determining the true clawback rate requires advanced mathematics.

• Verifying the correct GIS payment is complex. Moreover, today's GIS payments are based on one's tax return that was submitted 6 to 18 months ago.

The average minimum wage across Canada is currently $12 per hour. Since the poverty line in Canada is $22,133 per year, a typical needy senior will likely want to increase his income through employment. After earning $3,500, his net income after clawback would be as little as $2.88 per hour, just 24% of Canada’s minimum wage.

It is unlikely a senior would realize this. However, it is likely that, because of his age and probable health, work is a painful, undesirable chore. This injustice is highly ageist.

There is a simple solution. All employers must submit payroll information about their employees to the government monthly. The government could program their computers to automatically notify seniors near their $3,500 earnings exemption, by email or regular mail, about the impending punishing clawback. This would eliminate the problem of seniors unknowingly working for as little as 24% of their gross pay.

**Politics need votes...and this change would get them votes**

The political party that passes legislation to limit the clawback to 50% and reduce OAS to the wealthy will net many more votes. One and a half million near-poverty seniors who suddenly receive $1,200 more per year, on average, will be deeply grateful.

Consider the relevant increases in quality of life. The wealthy are known to hoard or invest extra income.
For many wealthier seniors, $1,200 per year would only slightly impact on their children's inheritance years from now. Conversely, low-income seniors typically spend any extra income. For a low-income senior, $1,200 per year might mean, for example, a golf game or dining out once a week, or plenty of taxi/uber rides, as they probably have no car.

The consequential loss in votes from wealthier seniors who now receive GIS and OAS would be minimal. Many wealthy seniors feel that they never deserved any government grant but if it is legal, they will take it.

Other wealthy seniors realize retirement on low income is difficult and empathize with those millions of Canadian seniors barely existing near the poverty line. Canada’s largest advocacy association for seniors, CARP, has many examples of middle-income seniors involved in philanthropic endeavours on its website.

It is probable that the political party that reduces the clawback rate to 50% would net a large gain in votes in the next election.

CARP, a 300,000-member Canadian association of retired Canadians, is probably senior’s strongest lobbyist. Most CARP members vote, meaning politicians listen to CARP. Prior to the upcoming 2019 federal election, CARP will be asking our federal government and opposition political parties to decrease the clawback rate to a more reasonable 50%.

CARP will also be making another reasonable request. They want the $3,500 exemption of employment income to apply to all forms of income. This means that a senior with a CPP pension of, for example, $3,500 per year would receive the entire $3,500, with no clawback. Today, his $3,500 pension only nets him a $1,260 increase in income. This vicious clawback on CPP income exists, even though the government forced him to contribute 10% of his lifetime earnings to the CPP. Lifetime, he contributed roughly $50,000 to the CPP and will likely only receive
back $25,000, even though the CPP invested his contributions and made as much as an 11.5% return.

**How does Canada measure up?**

How does Canada compare to other countries with respect to senior assistance? Poorly. The average senior assistance for the 33 OECD countries is 8.2% of GDP. Canada only spends 4.6% of GDP. We are a shameful 56% of the OECD average.\(^\text{13}\)

Meanwhile, Justin Trudeau claims he is a pro-feminist. Two thirds of GIS recipients are females.

**Taxation - Is Canada Progressive or Regressive?**

A clawback is like taxation. In both cases, the more money a Canadian earns, the more money the government takes back. Most Canadians believe we have a progressive tax system,

*a system of taxation in which persons or corporations are assessed at a greater percentage of their income according to the theoretical ability to pay*.\(^\text{14}\)

If the wealthiest seniors earn a dollar over $220,000, in Ontario, our government will take back 53.5% of it. Conversely, if the poorest seniors earn a dollar over $3,500 our government will take back as much as 76% of it. And even if a senior, because of lifetime contributions, deserves a CPP pension, our government will still take back as much as 76% of it. These numbers indicate Canada engages in a highly regressive, not progressive, tax system.

**Conclusion**

Two million GIS recipients have an excellent case that Canada engages in an ageist, sexist, regressive taxation system that favours the wealthy. With policy changes that would garner many votes, our government could provide much more income and justice to those two million deserving seniors who now live near or below the poverty line.
Comments, suggestions and criticism are welcome and can be sent to Ross Macnaughton at fixcpp@gmail.com.
## Appendix

### Summary of GIS Clawback

<table>
<thead>
<tr>
<th>CPP plus employment income over $3500</th>
<th>Monthly GIS, from GIS website</th>
<th>Annual GIS, from GIS website</th>
<th>Total income</th>
<th>Net increase in income</th>
<th>Net income as % of gross income</th>
<th>Clawback %</th>
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</tr>
<tr>
<td>$17,000</td>
<td>$36</td>
<td>$435</td>
<td>$17,435</td>
<td>$6,868</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**Explanation:**

If a senior has no CPP pension and no earnings over $3,500, he will receive $10,567 in GIS.

If, for example, his CPP pension plus earnings over $3500 is $5000, then his annual GIS payment decreases from $10,567 to $7,327.

His total income will be $5,000 + $7,327 = $12,327.

His increase in total income is $12,327 - $10,567 = $1760, only 35% of his $5,000.

His deserved $5,000 has been clawed back by $3,240 to $1,760, a 65% clawback.

The government GIS website used is:


In 2016, the Liberal government added a GIS top-up of roughly 10%. It is similarly clawed back.
Dear Mr. Macnaughton,

Thank you for your email of May 17, 2018.

1. You are right to say that the overall income reduction rate is 67% in our example that appear on Page 58 of the 14th OAS Actuarial Report. This overall income reduction rate is comprised of two parts:

a) The first part relates to the base amount of GIS which exclude the top-up benefit which is reduced by 50% of income. For the Page 58 example (based on 1st quarter 2017 GIS Singles’ Rates) the base amount is calculated as follows:

Monthly Base amount for GIS Single = $730.26 – Round Down [$800*50%] = $730.26 – $400.00 = $330.26 ➔ As such, the income reduction rate for the Base GIS benefit is $400.00/$800.00 = 50%
b) The second part relates to the top-up benefit that is reduced by 25% of income. For the Page 58 example (based on 1st quarter 2017 GIS Single Rates) the top-up amount is calculated as follows:

\[
\text{Monthly Top-Up amount for GIS Single} = \left(\$133.83 - \text{Round Down} \left[ (\$800.00 - \$166.67)\times25\% \right]\right) = \$133.83 - \$158.00 = \$-24.17 \quad \Rightarrow \text{Top-up is fully reduced to} \ 0 \ \text{and}\]

As a result, for $800 of monthly income the total monthly benefit reduces from $864.09 ($730.26 + $133.83) to $330.26 ($330.26 + $0) or a total reduction of $533.83 ($400.00 + $133.83).

As mentioned before, this represents a total income reduction rate of 67% ($533.83/$800.00).

2. As for your second example were someone as $5000 of annual CPP income then the benefit would be:

\[
\text{Base + Top-Up} = (\$730.26 - \text{Round Down} \left[ (\$5000/12)\times50\% \right]) + (\$133.83 - \text{Round Down} \left[ (\$5000 - \$2000)/12 \right]\times25\% \right) = (\$730.26 - \$208.00) + (\$133.83 - \$62.00) = \$522.26 + \$71.83 = \$594.09
\]

For an additional $1000 of annual income (other than employment income) the new benefit would be:

\[
\text{Base + Top-up} = (\$730.26 - \text{Round Down} \left[ (\$6000/12)\times50\% \right]) + (\$133.83 - \text{Round Down} \left[ (\$6000 - \$2000)/12 \right]\times25\% \right) = (\$730.26 - \$250.00) + (\$133.83 - \$83.00) = \$480.26 + \$50.83 = \$531.09
\]

So, for an additional $1000 of annual income (other than employment income), the reduction rate would be [ 12 x ($594.09 - $531.09) ] / $1000 = $756/$1000 = 76%.

Again, you are also right that in this case about $240 will remain of his/her additional $1000 and the total income reduction rate is 76%.

3. As you note there exist a $3,500 employment income exemption when calculating the income for benefit calculation. In this case, if you look at point 2 above then the benefit would remain at $594.09 and the individual would not see any reduction for their additional $1000 of employment income.

Note that the GIS tables assume that the income used to calculate the benefit is already net of this employment income exemption. The $3,500 earnings exemption is also mentioned here:

I hope this information is helpful.

Sincerely,

Jeans Cherestal
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Government of Canada / Gouvernement du Canada
Website of retirehappy.ca showing the GIS clawback rate highlighted in blue.

https://retirehappy.ca/understanding-gis-guaranteed-income-supplement/
Website of taxtips.ca showing the GIS clawback rate, highlighted in blue

https://www.taxtips.ca/seniors/gis.htm

For April 1 to June 30 2018, the maximum combined payment from OAS plus GIS is $1,470.29 ($589.59 OAS + $880.61 GIS) per month, for a single person. This maximum is reached if there is no income other than OAS and GIS. The Liberal government’s platform includes increasing GIS for single low-income seniors by 10%.

Income from OAS is taxable, but income from GIS, the Allowance, and the Allowance for the Survivor is tax-free. However, it is reported on Line 146 of the personal income tax return, so is included in Line 150. Total Income for Tax Purposes and Line 236, Net Income for Tax Purposes. It is later deducted on Line 250 of the tax return, so is not included in Taxable Income. See our article on Taxable Income for an explanation of how this affects your income tax and income-tested benefits.

The amount of GIS payable depends on marital status and total income for the prior year. Total income for GIS purposes is income from line 236 of the personal income tax return, less:

- OAS and GIS income
- the lesser of:
  - $3,500, and
  - your employment income minus allowable deductions including CPP or QPP contributions and EI premiums

Each $2 of income reduces GIS by $1.

The following would be eligible to receive GIS in April to June 2018, based on 2016 net income:

- single persons with total income less than $17,880.
- married/common-law couple, both OAS pensioners, with combined total income less than $23,616
- OAS pensioners whose spouse/common-law partner is not receiving OAS, with combined annual income less than $42,864

For exact details on what income from your tax return is included or excluded for purposes of calculating the GIS, see the GIS application form and instructions from the Service Canada OAS Forms page. Choose form ISP3025 for the year in which you are interested. This will get you to a page with 2 separate pdf files - the application form, and the instructions for the form.

Although the GIS is normally determined based on the previous year’s income, if an OAS pensioner or spouse retires or has a reduction in income for some other reason, as per s. 34 of the Old Age Security Act, Service Canada may use an income estimate for the current year to determine eligibility. However, if the actual income is later determined to be different from the estimated income, s. 18 of the OAS Act allows for an adjustment of the GIS paid. This could result in additional GIS being paid, or excess GIS being deducted from future payments.

See the Old Age Security Payment Amounts to get an idea of how much you might receive from OAS and GIS. If you receive the maximum OAS pension, the...
Website of moneysense.ca, showing the GIS clawback rate with an arrow

http://www.moneysense.ca/save/retirement/pensions/guaranteed-income-supplement-application/

In the case of a couple with a combined income of no more than $33,276 and where the spouse gets full OAS, the maximum monthly GIS for the other spouse is $524.85. If the partner is not receiving OAS and the combined income is no more than $42,384, the individual will get some GIS; they will get the full $871.66 monthly GIS benefit if they have no other income. In the case of a couple making no more than $42,384 and where the spouse is receiving the Allowance, the maximum monthly GIS for the other partner is $524.85. For updated numbers, click here.

Runchey says the most misunderstood point about GIS is that many mistakenly believe that if they can just keep their income below $17,699 that they will therefore get the maximum monthly GIS of $871.66. You get the maximum if you have zero income apart from OAS but if you have other income, including CPP, Service Canada says that for singles, the widowed and the divorced, the maximum monthly GIS is reduced by $1 for every $2 of extra monthly income. For couples both receiving OAS, the maximum monthly supplement for each is reduced by $1 for every $4 of their combined monthly income.

So if you exceed $17,688 you will not be eligible for GIS at all, while if you're just under the threshold you may get "a few pennies," Runchey explains. With various GIS top-up programs administered by the provinces, it's harder to calculate precisely.

Matthew Ardey, vice president and Wealth Advisor for Toronto-based TriDelta Financial says OAS & GIS are not considered income for the GIS clawback calculation. "Also you receive a deduction of the lesser of $3,500 and total employment income less deductions including CPP and EI for this calculation." Thus, if a GIS recipient earns more $3,500 net, earned income beyond this point will factor into the clawback calculation. If there is no earned income, there is no deduction, and this deduction cannot be used against other types of income.
Email from taxtips.ca regarding tax rate of GIS recipients

Taxtips.ca has confirmed the 30% tax rate as shown below. One must add the $3500 earnings exemption and the $7,000 OAS grant to the $10,000 in CPP plus earnings income to obtain taxable income.

Hi Ross,

Thank you for your interest in our website, TaxTips.ca.

As noted in the Ontario tax rates table (I’m guessing that you’re in Ontario – it was the first one I looked at, and the rate matches what you indicated), the marginal tax rates don’t include the Ontario Health Premium. If you read the “Understanding the Tables of Personal Income Tax Rates” at https://www.taxtips.ca/avrates/understandingtables.htm (see the link from the ON tax rates page), you’ll see that these tax rates don’t include any tax credits. At $20,000 to $22,000 of “other” income (not employment income), the Ontario Low Income Tax Reduction (LITR) goes down as the income goes up, and the Ontario Health Premium increases as the income goes up.

I’m not sure what you’re entering into TurboTax – when I enter $20,000 of “other” income for a senior for 2017 into TurboTax or into our detailed Canadian Tax Calculator, I get total tax of $171 federal + $21 Ontario = $192. This doesn’t change if part of the $20,000 is CPP and OAS. At $21,000 the total tax is $503 (marginal tax rate 31.1%) and at $22,000 it is $818 (again, 31.1%). You can check these out in our detailed Canadian Tax Calculator to see what the differences are from your TurboTax. In any case, you’re quite correct about the marginal tax rate being over 30%.

Without the LITR and the Health Premium, the taxes would be $416, $617 and $818, or $201 difference, which would be 20.05% if not rounded.

Regards,

Dorothy Keit
Boat Harbour Investments Ltd.
Nanaimo, BC
References:

1 https://budget.gc.ca/2019/docs/plan/chap-01-en.html#part-4-a-secure-retirement
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7 Retrieved on June 12, 2018 from http://www.moneysense.ca/save/investing/tfsa/key-to-rich-qualifying-for-gis-is-large-tfsa/
8 Retrieved on June 12, 2018 from http://www.moneysense.ca/save/investing/tfsa/key-to-rich-qualifying-for-gis-is-large-tfsa/
11 Retrieved on July 8, 2018 from https://www.ctvnews.ca/canada/census-children-make-up-one-quarter-of-4-8m-canadians-living-in-poverty-1.3587472
12 Reference withheld out of courtesy to the author.